MARKET SEGMENT REPORT: BREAK

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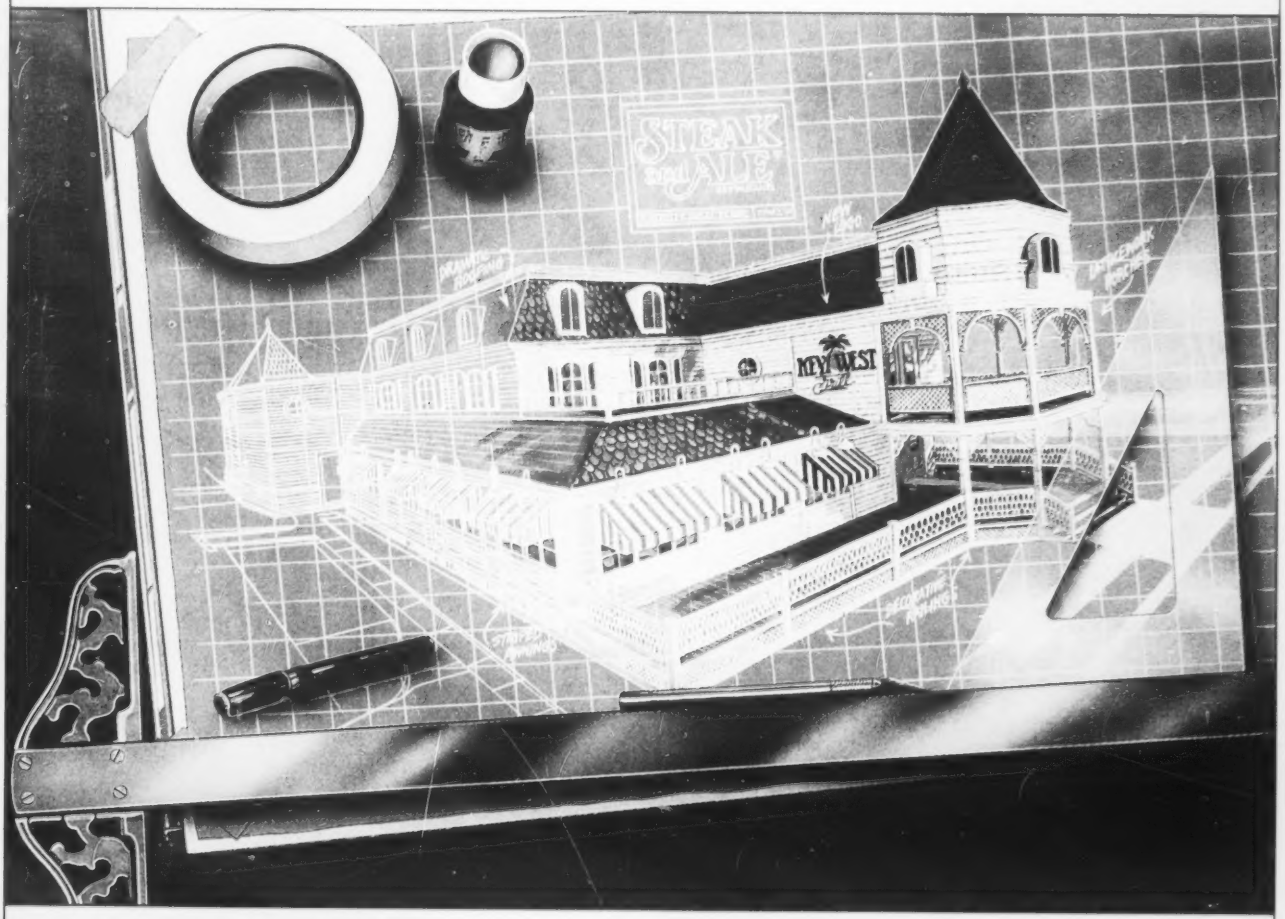
Restaurant Business

A BILL PUBLICATION

FEBRUARY 10, 1987

WHAT'S ON THE DRAWING BOARD AT S&A?

KEY WEST GRILL; BAY STREET; STEAK AND ALE; BENNIGAN'S PAGE 135



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*NEW COLUMN

BUSINESS BAROMETER

The Hard Facts Shaping Our Industry

By Linda Cecere

NRA Predicts 1987 Sales

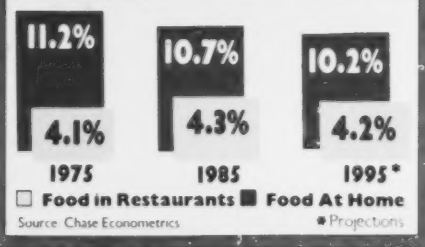
Healthy gains in population, employment and personal income are the reasons why nominal restaurant sales in the Mountain states of the U.S. should register the largest increase this year over last, at 8.2%, well above the 6.8% national average. The National Restaurant Association also predicts similarly good economic outlooks for the South Atlantic region, with a 7.6% increase; and the New England and West South Central regions, each pulling a 7.2% increase. The Mid-Atlantic section of the country will show smallest growth at 5.7% due to a less than robust economic climate.

PERCENT CHANGE IN THE REGIONAL ECONOMIES 1986-1987

Region	Population	Total Employment	Personal Income	% Change in Eating Place Sales
New England	1.2%	2.1%	3.9%	7.2%
Middle Atlantic	0.2	1.0	2.5	5.7
South Atlantic	1.5	2.3	4.4	7.6
East North Central	0.2	1.1	2.5	5.9
West North Central	0.3	1.2	3.0	6.0
East South Central	0.5	1.3	3.6	6.8
West South Central	1.1	2.0	4.3	7.2
Mountain	2.2	3.0	5.3	8.2
Pacific	1.6	2.5	4.1	6.9
Total U.S.	0.9	1.8	3.6	6.8

Source: National Planning Association, Regional Economic Projections Series, National Restaurant Association

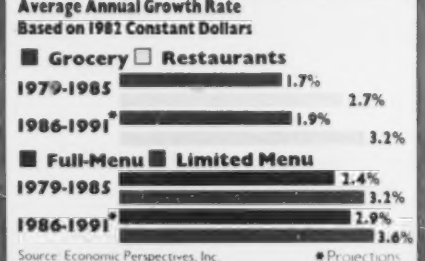
PERCENT OF DISPOSABLE PERSONAL INCOME CONSUMERS SPEND ON FOOD



Source: Chase Econometrics *Projections

GROCERY VS. RESTAURANT SALES

Average Annual Growth Rate Based on 1982 Constant Dollars



Source: Economic Perspectives, Inc. *Projections

DPI Rises; Restaurants Gain

U.S. Disposable Personal Income (DPI) will rise an average of 2.6% per year between 1985 and 1995, which will benefit restaurant sales, according to Chase Econometrics. American consumers will continue to maintain their eating out budgets at a virtually stable 4.2% through 1995. That's because of increasing numbers of single householders and dual earner families who eat out more often than traditional families. The loser will be grocery sales (food at home): consumers will spend only 10.2% of total DPI in 1995, compared to 11.2% share in 1975. Not surprisingly, a study by Economic Perspectives, Inc. forecasts total restaurant sales will increase at a 3.2% average annual growth rate, from $109 billion to $127 billion between 1986 and 1991, compared to 1.9% average annual growth for grocery sales. Full menu restaurants will experience 2.9% average annual growth, from $67 billion to $78 billion, and fast food operations will log 3.6% growth, from $42 billion to $49 billion.

CHARTS DESIGNED BY SHARI FANG

Restaurant Business

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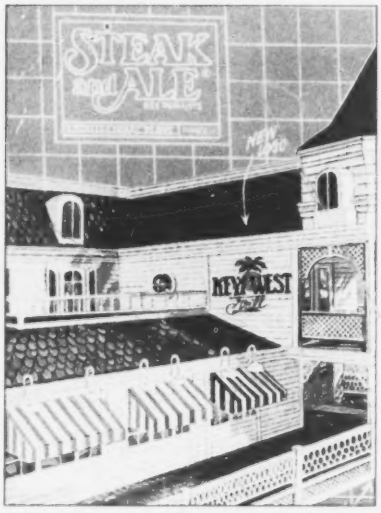

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Published 18 times a year by Restaurant Business Magazine, (ISSN 0097-8043), 633 Third Ave., New York, N.Y. 10017 Vol. 86 No. 3. Second Class Postage paid at New York, N.Y. and additional office (USPS 917-180). Postmaster please send address changes to Restaurant Business, P.O. Box 5309, Grand Central Station, New York, N.Y. 10017

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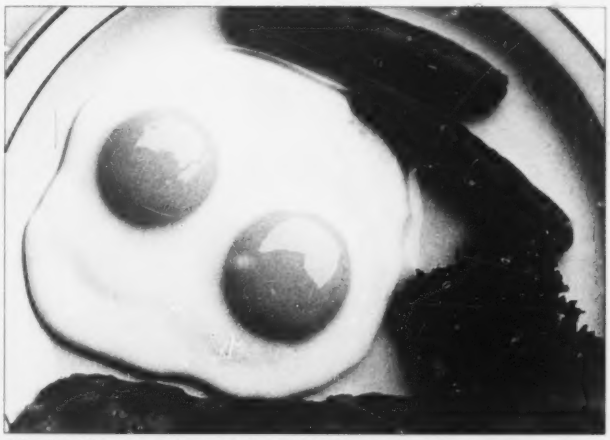

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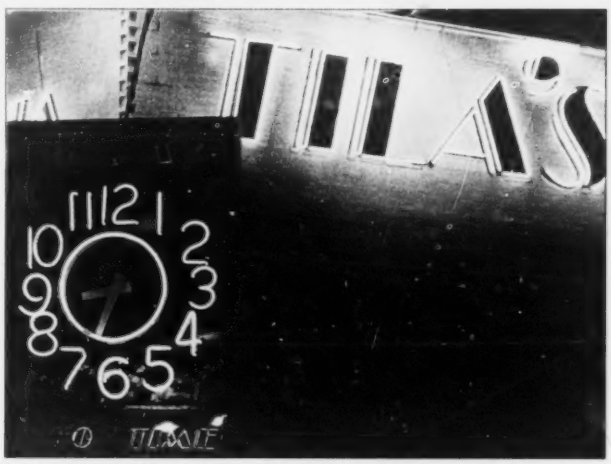

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MARKET SEGMENT REPORT

BREAKFAST

In recent years, statistics have shown breathtaking gains in breakfast sales and traffic. As a result, more and more foodservice operators have joined the breakfast fray, seeking to get a share of the market.

Breakfast has become an extremely competitive daypart, fueling changes in the overall foodservice market. For instance, in the last few years nearly every major fast food company has added breakfast, which squeezed the traditional coffee shop operators, forcing them to seek additional lunch and dinner customers.

Now an increasing number of upscale "breakfast-only" concepts are putting pressure on mid-scale family restaurant/coffee shop operations, and fast food operators are seeing breakfast trade level off. At the same time, convenience stores are aggressively mounting a campaign to get a share of the fast food dollar, especially at breakfast, and a number of bakery concepts are attempting to position themselves as a.m. destinations.

OPTIMISTIC. Yet, there is still cause for optimism on that front. The "business breakfast" is emerging, and is in part responsible for the growth of the new upscale breakfast houses.

"We feel that more and more businessmen are using breakfast time to conduct their business as a way of stretching the day," says Dorothy Dee, director of information for the National Restaurant Association, based in Washington, DC. "If I meet someone for breakfast, I know that I am not cutting into his day."

New statistics indicate that breakfast sales and customer counts are no longer increasing in 1986, sparking a

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IHOP's new breakfast special includes two eggs plus bacon and sausage.

IHOP derives more than 50 percent of its total sales from breakfast items.

MARKET SEGMENT REPORT

BREAKFAST

Mrs. Winner's stresses portability with its biscuit breakfast product, in a number of different guises.

Although some statistics suggest that growth in the breakfast market may have peaked, there is still plenty of demand.

BREAKFAST *from p. 167.*

controversy in the industry. Is the breakfast market still growing? Do breakfast customers still represent a source of new business?

HAS DEMAND PEAKED? "The breakfast market has peaked out this year; the supply of foodservice operations offering breakfast has finally caught up with the demand," says George Rice, president of Park Ridge, IL-based GDR/CREST Enterprises, Inc., a marketing and consulting firm. The company's CREST report tracks foodservice sales and traffic, and shows that breakfast sales and traffic increased not at all during at least two quarters in 1986. In 1985, the total breakfast market increased by 20 percent, according to CREST, compared to an eight percent total increase for the industry over 1984.

"Breakfast is still a vibrant daypart," Rice hastens to point out. "It's just that operators were able to take advantage of excess demand for breakfast, which has now been satisfied by the industry."

Some foodservice operators say that CREST data should be viewed with caution. "When I read that CREST indicated breakfast had peaked, I thought it was a joke," says Steve Pettise, vice president of marketing for North Hollywood, CA-based International House of Pancakes (IHOP), which operates some 450 units throughout the country. "When you've got a daypart that is attracting only 13 percent of the public, according to CREST data, you've got a lot of room to grow. Sales look as though they have peaked this year only because they increased so dramatically last year."

Like other operators, he points out that Wendy's introduced breakfast in 1985 and Burger King advertised breakfast heavily for the first time in 1985. Although Wendy's breakfast introduction wasn't considered successful, statistics showing traffic counts and sales reflected a surge simply because of the enormous numbers of Wendy's and Burger King units throughout the country.

Allen J. Bernstein, chairman of the board for Denver-based Le Peep Restaurants Inc., the country's largest upscale breakfast-only chain, agrees that there is still plenty of room for breakfast sales to grow. "We see our sales continuing to increase," he notes. "The reasons for the growth in the breakfast daypart continue to hold true: there are more working women, more divorced people, more time pressures, and less reason to eat breakfast at home. And people are finding that having a breakfast meeting is a good way to conduct business and an efficient use of time."

CREST statistics *do* hold out some hope to family/coffee shop restaurants, although, in recent years, fast food breakfast sales have grown partly at their expense. CREST says that in 1986 mid-scale restaurants held on to the same 49 percent share of breakfast sales they held in 1985. Quick-service restaurants continued to hold a 41 percent share of sales in 1986 (up from 37 percent in 1982), and upscale restaurants held a 10 percent share of sales.

"The world does not want to drink out of a Styrofoam cup and eat with a plastic fork every day," notes Alan Post, senior vice president of marketing for Minneapolis-based Country Kitchens International Inc., a subsidiary of Carlson Companies. "That's o.k. if you're in a hurry, but no fast

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MARKET SEGMENT REPORT

BREAKFAST

VICORP is continuing to pursue the mid-priced breakfast market with its skillet breakfast line.

BREAKFAST *from p. 168.*
food place is ever going to put someone out of business who is offering a good value at breakfast."

THE FAST FOOD FRONT. Breakfast continues to be a very important daypart for fast food operators, though there have been no major breakfast rollouts or new product introductions in the last 12 months. The most significant development recently continues to be the failure of Dublin, OH-based Wendy's International, Inc., to develop a distinctive breakfast program to compete with McDonald's, Burger King, and all the others.

Wendy's has made breakfast optional for franchised and company-owned stores, and one source says that 25 percent of company stores and as many as 40 percent of franchisees have dropped the existing breakfast program. The company is reportedly testing a new breakfast in its Columbus market, but declined to comment.

"Our policy is not to discuss test programs," says Paul Raab, the company's manager of corporate communications. "We are looking at our options in the breakfast arena. It is an essential daypart; we see a great deal of opportunity there, and we intend to pursue the opportunity."

The Wendy's breakfast debacle has had serious implications for the company, analysts say. The company rolled out breakfast during the summer of 1985, making a tardy entry and incurring heavy costs.

"A lot of franchisees lost money or came close to it by implementing Wendy's breakfast program, and they are less happy with the Wendy's chain than they used to be," notes Charles Glovsky, a vice president at Alex. Brown & Sons, Baltimore, which follows Wendy's stock. "I understand that a number of franchises are for sale."

He points out that part of the damage to the Wendy's system is attributable to the fact that Wendy's was concentrating on a breakfast rollout at the same time that McDonald's was bringing out its McD.L.T. and Burger King was introducing a reformulated Whopper. "At a time when Wendy's was focusing on a costly new daypart, the competition was hurting them during other dayparts," Glovsky says. "The effect was very serious, and profits have been hurt substantially."

Wendy's breakfast was not successful, says Glovsky, because it did not meet the needs of the customer who goes to a fast food restaurant for breakfast. The program was built around made-to-order omelets and French toast, neither of them very portable. Undeniably, portability is what customers usually seek from a fast food breakfast; they are in a hurry, and they frequently order through a drive-thru window and eat in the car. In addition, the omelets took about four min-

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MARKET SEGMENT REPORT

BREAKFAST

The mid-priced market is still getting the squeeze at breakfast from both the fast feeders and the new breed of breakfast-only concepts like Le Peep and Dozens.

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utes to prepare. "That just turned people off," Glovsky says.

BREAKFAST AS USUAL. Most other fast food operators have been pursuing breakfast as usual. Burger King has been experimenting with several portable items, including French toast sticks. Roy Rogers, a subsidiary of Washington, DC-based Marriott Corp., has completed rollout of a breakfast program in both Washington and Baltimore, and now serves breakfast in less than half of its 575 units.

Breakfast has proven to be very important to some of the upscale chicken fast food operators, which occupy a place between fast food and family restaurants. Typical is Lewisville, TX-based Grandy's, with 192 units. Grandy's offers pancakes, biscuits and gravy, baked-from-scratch cinnamon rolls, and scrambled egg platters in addition to biscuit sandwiches. On the average, 20 percent of a unit's sales derive from breakfast, says Bob Lee, vice president of marketing.

Grandy's differs a little from the typical fast food operation in that drive-thru sales are not extremely important at breakfast. "We're more of a place where people come in to enjoy breakfast," says Lee. "Our 'Grannies' pour coffee, and we have a nice atmosphere. People want a quick and convenient breakfast, which we combine with some ambience."

At 299-unit Bojangles Chicken & Biscuits, based in Charlotte, NC, breakfast accounts for more than 30 percent of sales, says Tony Monzo, executive vice president of marketing. Like Grandy's, Bojangles' breakfast is built around biscuits, but biscuit sandwiches are far more important than platters. At least 50 percent of total breakfast sales come from the drive-thru, says Monzo.

Brentwood, TN-based Mrs. Winner's Chicken & Biscuits, with 165 units in the Southeast operated by parent Winners Corp., also offers a breakfast menu consisting of biscuit sandwiches, breakfast platters, and Super Cinnamon Swirl bun, and almost the entire breakfast menu is designed to be portable. "We designed a menu that customers can eat while they are driving," says Pam Davis, marketing manager.

Breakfast is very important to Mrs. Winner's, with about 38 percent of sales deriving from the daypart. More than half of those sales come from the drive-thru window.

At Dublin, OH-based Sisters Chicken & Biscuits, a subsidiary of Wendy's International, breakfast is less important, accounting for only 10 to 15 percent of sales depending on the season. This company, too, sees portability as a key to breakfast success, and for that reason makes its biscuits out of buttermilk so they don't crumble as easily.

Aside from the burger and chicken chains, few other fast food operators have made inroads into the breakfast market. About two years ago Domino's tested a breakfast pizza delivered with a morning newspaper, but the idea fizzled.

In some areas breakfast burritos have met with success, and one San Antonio-based company, Taco Cabana Inc., derives some 25 percent of its sales from a Mexican breakfast. The mainstay at breakfast is the breakfast taco, filled with bacon and scrambled eggs, chorizo and eggs, sliced link sausage and eggs, diced potatoes and eggs, or refried beans and cheddar.

The company operates nine units in Texas, and at some of them breakfast is more popular than lunch, says Linn Moody, a co-owner. It's not uncommon for businesses to call up and order 150 breakfast tacos for meetings, he notes.

CONVENIENCE STORES. Breakfast is proving a particularly tempting target for convenience store operators, who increasingly are including breakfast sandwiches in their fast food arsenals in addition to their old standbys, coffee and donuts. Typical of the movement is Phoenix-based Circle K Corp., which last year added two new breakfast

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MARKET SEGMENT REPORT

BREAKFAST

Grandy's is marketing its made-from-scratch cinnamon rolls, among other items, as a better-than-fast food alternative.

The fast food breakfast scene appears to have stabilized, with no major new entrants or new products launched.

BREAKFAST *from p. 172.*
sandwiches at its 3,350 units.

"I think we're going to start to see the effect of convenience stores on the breakfast market in the next couple of years," says Bojangles' Monzo. "They have the distribution points, and they are willing to take smaller margins. I think that if there is going to be growth in the breakfast market, it will come from customers attracted to c-stores."

C-stores, however, lack the competitive advantage of the drive-thru window, points out Glovsky of Alex. Brown. "I don't want to diminish the competitive threat that c-stores pose, but the convenience factor may not be quite as great at a c-store as at a fast food outlet," he says.

THE BAKERY CONNECTION. The new bakeries that are proliferating throughout the country are positioned primarily as places to get a snack, but they could conceivably attract a substantial breakfast business. Kansas City-based T.J. Cinnamons Inc. is now offering continental breakfast service at its seven company-owned bakeries in Kansas City. The breakfast consists of a cinnamon roll, choice of coffee, tea or soft drink, and orange juice for $1.99, a savings of 41 cents over the individual components. The breakfast is available until 10:30 a.m.

Cinnamon Sam's, also based in Kansas City, is also targeting breakfast at its six units. "I think that McDonald's and Hardee's capitalized on breakfast, but bakeries didn't," says Jerrold Biddle, president. "We're saying, 'Hey! We have something to offer that those guys don't have.' We just reacted more slowly."

In addition to three sizes of cinnamon rolls, Cinnamon Sam's also offers a cinnamon "munch" cake that is made out of cinnamon roll ingredients but is less messy and can be served at business meetings.

BREAKFAST-ONLY CONCEPTS. Upscale concepts specializing in breakfast are proliferating, and their capital seems to be Denver. This is the homebase of the only upscale breakfast chain that so far has made serious strides toward a national presence: Le Peep.

The Mile High City is also home to restaurants with the appropriate names of Dozens, Scrambles, The Delectable Egg, The Eggshell, and The Egg-Ceptional Eatery, among others, all of them apparently flourishing. As if that were not enough, nearly every eating establishment in town reportedly has begun to offer breakfast to tap into what appears to be a lucrative market. "Everybody and their brother does a 99-cent breakfast," says Scott Diamond, co-owner of Dozens. "It's definitely a battle for the buck. When my partner and I conceived the idea for Dozens, almost nobody was in the business; but by the time we opened, the market was cluttered. Believe it or not, there's now upscale breakfast places a half mile to the north of me and a half mile to the south of me."

Breakfast meetings are particularly popular in Denver, says one observer. The popularity of such meetings may be an outgrowth of their availability in the first place, but more have opened as the potential became apparent.

Le Peep specializes in omelets, frittatas (an egg dish similar to a crustless quiche), and unusual and attractive egg dishes complemented by pan-

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MARKET SEGMENT REPORT

BREAKFAST

The Pump Room caters largely to hotel guests with its traditional breakfast fare.

BREAKFAST *from p. 174.*

cakes, French toast, several side dishes, and fresh-squeezed orange juice. Prices range from $1.95 for oatmeal with nut mix or granola with blueberries, to $5.95 for an omelet made with chicken, mushrooms, water chestnuts, broccoli, and cream cheese, then topped with hollandaise.

In between are such unusual selections as pancakes made with trail mix; an omelet made with marinara sauce and Italian cheeses; and a frittata made with cheese, chorizo sausage, bell peppers, onions, jalapeno peppers, and green chili salsa.

All of this is served up in a light, bright, upscale atmosphere quite unlike that of an old-style coffee shop. Skylights let sunshine flood in, and many units have outside eating areas.

GROWTH CURVE. Le Peep grew out of Aspen's Village Pantry, which specialized in breakfast and lunch only so that its slow-talking owner, Colorado native Buddy Waldman, could close early in order to fish, hunt, and ski. In 1983, after opening one company unit and one franchised Le Peep, Waldman hooked up with Allen J. Bernstein, a fast-talking New York fast food franchisee who saw a great deal of promise in the concept.

The rest is history, as they say. Now there are 28 restaurants, 17 of them company-operated and 11 of them franchised. Another 46 should open in 1987, says Bernstein, now chairman of the board. Units are located in Southern California, Denver, Albuquerque, Boulder, Minneapolis, Wichita, Milwaukee, Chicago, Atlanta, Dallas, and on Long Island. Units are opening soon in Toledo, Houston, Orlando, Omaha, Cincinnati, Cleveland, Columbus, Austin, and Pittsburgh.

One Wall Street analyst who follows the restaurant industry raises the question of whether breakfast-only restaurants such as Le Peep can generate the sales necessary for an adequate return on investment when they typically operate only eight hours a day, from 6 a.m. until 2 p.m.

Bernstein refutes the question by pointing out that Le Peep restaurants usually go into existing properties in strip centers and other locations, and typically require an investment of only $300,000. "We have a very, very low break-even point," he says. "An operator can make $700,000 a year and show a 35 to 40 percent return on his investment capital. Combined food and labor costs average only 54 percent."

Another Denver operation is Dozens, with two units. The first opened in 1984 and is patterned after California's Omelette Parlors, operated by Santa Monica, CA-based Grand American Fare. Diamond, co-owner of Dozens with Lance Nading, worked for Grand American Fare for some eight years before striking out on his own.

Diamond and Nading built the units

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MARKET SEGMENT REPORT

BREAKFAST

Convenience stores have been tempted by breakfast, but by and large, c-stores can't offer the convenience factor of fast food: drive-thrus.

BREAKFAST *from p. 178*

themselves, seeking a light, airy atmosphere. The restaurants feature skylights, bleached wood floors, and a yellow and green motif. Walls are decorated with photographic blow-ups of the graphic art found on fruit labels. Both stores also feature patios.

Dozens is billed as a "fresh eggsperience," and the owners view the fact that everything is fresh and cooked from scratch as their competitive edge. Juices are squeezed fresh daily, and coffee is ground fresh. Every dish is garnished with several pieces of fresh fruit. Huge omelets are served with whole wheat English muffins and heaps of fried potatoes.

BUSINESS BUILDER. To exploit the business connection during the week, many of the booths in Dozens feature telephones. "This is a definite business builder," says Diamond. "A lot of salesmen come in and set up their whole day."

The 15 omelet varieties include one made with green chilis, tomatoes, and cheddar; one with avocado, tomato, and goat cheese; another with fresh fruit, walnuts, and yogurt; and yet another made with crab and shrimp combined with Swiss cheese and hollandaise sauce. Prices are in the $4 to $5 range. Also featured on the menu are Belgium waffles, fruit smoothies (made of bananas, berries, yogurt, and fresh-squeezed orange juice blended together), sweet rolls, and biscuits and gravy.

Diamond says that Dozens derives about 60 percent of its sales from breakfast and 40 percent from lunch during the week, when the average check is about $5.50. On the weekends, average check is about $6 and customers come for brunch.

The first Dozens unit in Aurora, a Denver suburb, seats about 150 people and was expected to gross about $500,000 in 1986, says Diamond. The second unit seats only 45 with another 15 on a patio, and will gross less but probably net more, he notes.

NATIONAL HOPEFUL. Yet another Denver egg eatery is The Delectable Egg, with three units in the Denver area. Locations are going to open soon in Boston and in Tyson's Corner, VA, and the company is negotiating for another location in Denver. Owners are two sisters, Mindi Atkinson and Sherry Kirchner. They say that they hope to eventually be a national chain.

The Delectable Egg specializes in omelets, smoothies, eggs in pockets, frittatas, pancakes, waffles, French toast, and various kinds of eggs. Eggs in pockets consist of pita pockets layered with scrambled eggs, house potatoes, and various fresh ingredients, covered with melted cheese. They are served with "Grandma's Apples."

Frittatas, made with three eggs, include the "Bostonian Catch," made with seafood and topped with clam sauce, broccoli, and melted cheddar, and "The Don," made with mushrooms, green peppers, onions, Italian sausage, and marinara sauce covered with hot mozzarella. The frittatas are something like a pizza, with egg on the bottom and toppings above. The highest price on the menu, which also includes sandwiches and a daily special, is $5.75.

Like so many of the other Denver breakfast restaurants, The Delectable Egg appeals to businessmen. And even though the company's marketing director, Reenie Johnson, says that all Denver's breakfast places seem to be very busy, she agrees that the Denver market is overbuilt. "That's one of the reasons that we want to go nationwide," she says. "There are not so many breakfast places in other parts of the country."

Like Le Peep and Dozens, The Delectable Egg offers a simple but sophisticated atmosphere. Original artwork, which changes every month, adorns the exposed brick walls. The airy rooms are decorated in shades of brown and peach.

Out in California, Santa Monica-

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MARKET SEGMENT REPORT

BREAKFAST

Sisters makes the biscuits for its breakfast sandwiches with buttermilk so they don't crumble when eaten.

Portability and convenience are paramount in the battle for breakfast share being waged by fast feeders.

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based Omelette Parlors is one of the companies that lay claim to being among the first upscale breakfast concepts in the country. Nine Omelette Parlors (the first opened nine years ago) are scattered around California and Colorado.

The menu features 10 different omelets with such ingredients as Italian sausage, spinach, and mushrooms; chili, cheese, and onions; and fresh fruit. All omelets are $3.95. Waffles, French toast, and bacon and egg platters help round out the menu.

BREAKFAST MEETINGS. In California, too, breakfast meetings are becoming important, and the Omelette Parlors also offer telephones at many tables. "It seems that all of a sudden breakfast is recognized as a viable entity," says Jim Furry, president of the parent company, Grand American Fare, which operates 33 restaurants altogether. "Every year our sales increase significantly. These are very nice little operations for us."

Omelette Parlors cater to the business breakfast market by offering breakfast buffets for meetings. A croissant buffet, with juices, croissants, danish, and a fresh fruit tray, is $4.95 per person; a Mexican buffet, with juices, egg burritos, a Mexican egg casserole, rice, refried beans, Mexican potatoes, and Mexican pastries, is $6.25, as is a more typical breakfast buffet of scrambled eggs, bacon and sausage, fresh fruit, potatoes, muffins and French toast.

Furry says that Grand American Fare will continue to expand the Omelette Parlors, although nothing is firm at this time. The units average from $600,000 to $800,000 in sales a year, and are open only from 6 a.m. until 3 p.m.

Another California company that derives most of its sales from breakfast-type entrees is called The Cook Book, with two units in Costa Mesa, and others to open soon in Huntington Beach, Cypress, and Ventura Park, CA. The Cook Book differs in several respects from many of the other upscale breakfast places; the restaurant is open all day, and the menu is much broader than is typical. The restaurant caters to families as well as businessmen, and annual volume is higher than for most of the upscale breakfast places. Owner Ash Conner says that he expects Cook Books to average $1.2 million in annual sales judging from current sales.

The Cook Book menu features more than 100 omelets made from a vast array of ingredients, including chicken livers, mortadella sausage, Italian sausage, ham, chopped bacon, link sausage, salami, chorizo, pastrami, cottage cheese, jalapeno peppers, spinach, bean sprouts, diced cactus, and smoked baby sausage. There is even an omelet made with ham, pineapple, coconut, and raisins, and another made with banana, walnut, and cheddar. A Mariner omelet comes with scallops, avocado, roasted almonds, and Swiss cheese. All omelets are served with hash browns, jelly, and a choice of sourdough, whole wheat or rye bread or an English muffin, a blueberry muffin, or corn bread.

COMPUTERIZED. "Even though it looks like so many omelets, preparation is easy because the recipes are all computerized," says Conner. "The cook just calls each entree up on the computer and goes from there."

All omelets are priced at under $7, with most in the $4 and $5 range. Customers also have the opportunity to create their own omelets, with different ingredients priced individually.

The menu also offers luncheon items and omelet dinners; however, Conner

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BREAKFAST

Le Peep is the most promising entry in a relatively new category specializing in breakfast.

Restaurants which specialize in breakfast service are making inroads in the mid-priced family dining market.

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says that 70 percent of his business comes from breakfast entrees, and almost half comes during traditional breakfast hours.

Conner describes the Cook Books as "upgraded coffee shops," with lots of antiques, paintings, and fresh flowers. Colors are light, and he describes the atmosphere as "comfortable."

Phoenix is another market where upscale breakfast places are popping up. This is the home of The Good Egg, which operates four units in Phoenix, Boulder and San Diego under the corporate name of Our Good Eggs Inc. A fifth unit in Phoenix was set to open in January.

"We are planning to open several more units in marketplaces where we are already open, with an eye to franchising," says Bob Smith, a director of the corporation who is currently a Burger King franchisee. He is part of a group of new owners, headed by president Roger Flansburg, who purchased the company in March of 1986. "We were first drawn to the business as customers," Smith adds.

A customer can have his eggs prepared in one of over 40 different ways at The Good Egg, or can select from such entrees as a cashew blueberry gourmet pancake, a breakfast burrito, or a trail mix and mandarin orange pancake made from freshly ground wheat. Average check is about $5.

MID-PRICED RESTAURANTS. The new breakfast-only restaurants are successfully exploiting a niche that by all rights might have belonged to the existing breakfast-oriented chains such as Village Inns, IHOP, and Perkins: They offer similar pricing and average checks, and a similarly interesting diveristy of menu.

Where the upscale breakfast places differ is in image; many of them attract a "Yuppie" clientele with their trendy menus and decor, and thus can take advantage of the growing trend toward using breakfast meetings as a pleasant way to extend the workday. In addition, they benefit from the fact that they are new, not the old standbys.

Meanwhile, fast food concepts with their emphasis on portability and convenience, as well as c-stores, have been squeezing the mid-priced market at the bottom end of the price scale. Result: The mid-priced, family-oriented, coffee shop restaurants that once thrived on breakfast business have faced sharply increased competition at the same time that the breakfast market has been growing.

Players within the mid-priced segment have responded in recent years by building other dayparts, slowly and steadily upgrading, and promoting value. Denny's Grand Slam Breakfast, at $1.99 competitive with any fast food breakfast, has become a classic in the segment.

Mid-priced family restaurant operators say that when fast food operators first began promoting breakfast, their sales were hurt. Now sales have stabilized, and upscale breakfast places are seen as more of a threat. Yet at the same time there is optimism among the operators of mid-priced family restaurants that have long derived an important part of their sales from breakfast because of the country's new love affair with the daypart.

Says IHOP's vice president of marketing Steve Pettise: "The more exposure the daypart gets, the better. At some point they're going to come to the Cadillac of breakfast—IHOP."

Pettise admits that the competition is fierce, however, and says that even within his own company he'll find disagreement with his view.

"Yes, fast food hurt us at first, but I

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MARKET SEGMENT REPORT

BREAKFAST

The 'business breakfast' has emerged as a viable new avenue of sales growth, and is being pursued by a number of companies with mid-priced and upscale dining concepts.

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feel we're becoming more competitive all the time," he says. "When someone goes out and advertises a pancake or breakfast sandwich, I just love it because I can come back and advertise everything from cheese blintzes to cinnamon raisin pancakes. Try to get that at a fast food place."

IN DISGUISE. IHOP, which derives over 50 percent of its sales from breakfast items and 35 to 45 percent of its sales during breakfast hours, is attempting to build weekday breakfast by promoting the wide variety offered and about the value. A popular long-running promotion has been the Rooty Tooty Fresh 'n Fruity breakfast special, advertised by television spots showing a man wearing a disguise of glasses and mustache when he comes into a restaurant. He wants to buy the special, consisting of two eggs, two pieces of bacon, two pieces of sausage, and two specialty pancakes (either strawberry, blueberry, peach, or cinnamon apple) for as little as $1.99 depending on the location, but he is embarrassed to say the name. Then he sees that the entire restaurant is filled with customers wearing a similar disguise.

"These aren't discounts, these are values," Pettise points out. "These kinds of values reinforce the strength of our tremendous variety."

Another chain that enjoys a reputation for value at breakfast is Columbus, OH-based Bob Evans Farms Inc., which also uses aggressive promotions to build weekday business. The company, which uses a country theme in its 169 units—many of them along interstate highways—also promotes value.

"We really have two breakfast customers," says Roger Williams, director of marketing. "The weekday customer has a smaller check, is more convenience-driven, and is more likely to dine with co-workers and in smaller groups. Weekend breakfast is more of an event. We have a dual strategy."

During the week, Bob Evans concentrates on turning tables and building checks. Promotions for weekday breakfast are external, in newspapers and on the radio. "We took a chapter out of the Denny's book when we saw their success with the Grand Slam Breakfast at $1.99," says Williams. Bob Evans offers a similar special, with four different breakfasts available for $2.49.

On weekends, lines often form out the front door at a Bob Evans, so promotions are internal.

Bob Evans has seen no dramatic changes in its breakfast business in recent years, just a gradual evolution of the menu. As customers' tastes change, the company has added seasonal fruits and is now testing pancake toppings and working with omelets.

Minneapolis-based Country Kitchens International Inc., a subsidiary of Carlson Companies, operates 250 country-themed restaurants in the mid-central U.S. Some 40 percent of the chain's sales derive from breakfast items sold at various times of the day, with about 25 percent of sales coming during traditional breakfast hours.

The company has made a name and sparked imitators with its "Skillet Breakfasts," a line of five big breakfasts served in a skillet. For example, a Southern Skillet contains sausage patties, biscuits and gravy, and eggs. Also popular is Country Eggs Benedict, made from country ham instead of Canadian bacon.

Country Kitchens' customers are very much lower-middle to middle class working people, says senior vice president of marketing Alan Post. "Because of that, we don't get too fancy," he says. "We just went through the menu and threw out all the trendy stuff. If it's hot in New York, it won't make it with us."

Country Kitchens, too, promotes value. "I call our whole marketing plan 'Back to the Future,' " says Post. "We've stayed in business since 1939 basic service and value."

Denver-based VICORP, which oper-

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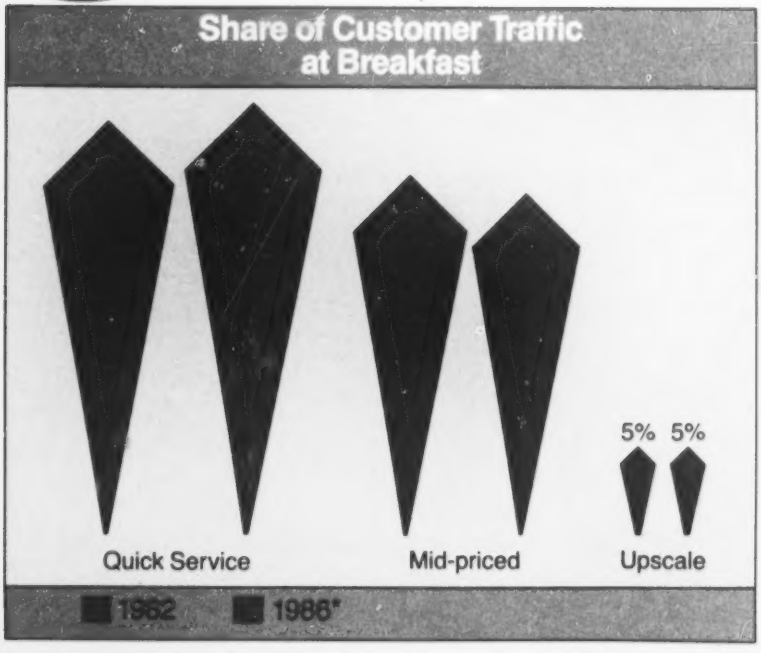
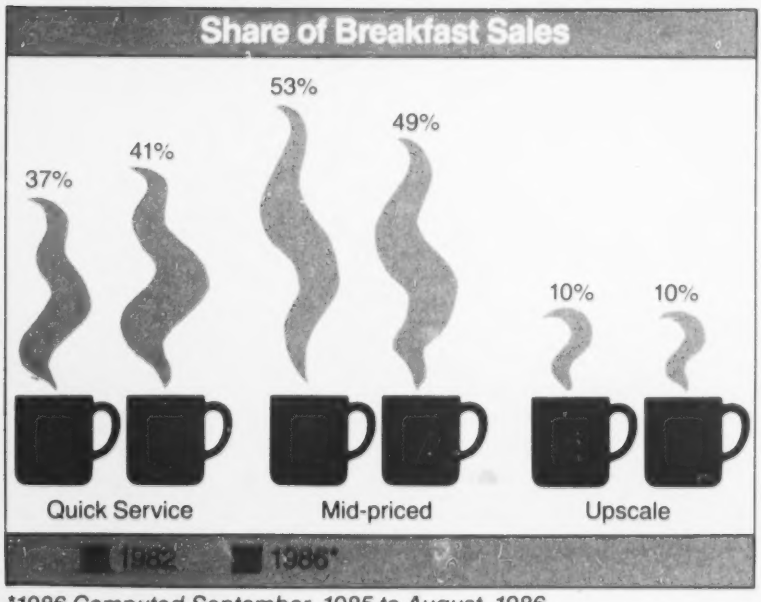
BREAKFAST





1986 Computed September, 1985 to August, 1986.
Source: CREST

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ates 267 Village Inn restaurants throughout the country, derives about 40 percent of its sales from breakfast, says James Hill, director of menu development. "We are trying to reestablish ourselves in the breakfast market because the competition is getting so intense," he adds.

To establish a stronger presence, Village Inn is developing several new pancake flavors, such as cinnamon nut, raisin, and peanut butter and jelly. The company also recently introduced a new line of skillet breakfasts, consisting of seasoned potatoes served in a skillet and topped with melted cheese and eggs. Five varieties are available: Mexican, Italian, cheese and onions, ham and cheese, and "the works."

UPSCALE RESTAURANTS. Typically, breakfast has not been an important daypart for upscale restaurants: Their morning time is better spent prepping for lunch and dinner. Sunday brunch has been more successful, because it utilizes a restaurant that would otherwise be sitting empty.

In the Denver market, where breakfast has proven to be so popular, an upscale restaurant called The Marina offers a breakfast buffet every morning, which has proven very successful. TGI Friday's is reportedly testing a breakfast menu in some of its units, but details were sketchy. In Chicago, old favorites like Lou Mitchell's in the financial district have successfully served breakfast year after year. But these are the exceptions.

Phoenix's six Lunt Ave. Marble Clubs, operated by Big 4 Restaurants Inc., recently introduced a variation on Sunday breakfast that they call "The Sunday Splurge." The breakfast is priced at $5.95 to $7.95, and is so successful that the company may add breakfast on Saturday, says director of advertising Barbara Gordon.

The breakfast includes an omelet station where omelets are made to order; a fresh-squeezed juice bar serving fresh orange juice, fresh tomato juice, and fresh grapefruit juice; fresh baked goods such as bagels, croissants, and coffee cakes; and "country breakfast" selections such as biscuits and gravy, thick French toast, and corned beef hash. The brunch attracts from 200 to 250 customers per store on Sundays, says Gordon.

One fine dining restaurant that does offer breakfast is Chicago's Pump Room, located in the Ambassador East Hotel and operated by Lettuce Enter-

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"Pepperidge Farm Danish Pastries taste like they come fresh from the cornah bakeshop."

Pepperidge Farm Danish Pastries are an all-time favorite breakfast food with your customers. And it's no wonder. Because Pepperidge Farm Danish have an old-fashioned corner bake shop taste and goodness.

Whether you serve these Danish piping hot or not, your customers will find them impossible to resist. Pepperidge Farm makes it all easy because they're packed in an assortment of almond bear claw, apple, berry, cinnamon raisin, maple and lemon.

To sample, contact your Campbell sales representative.

PEPPERIDGE FARM

"Pepperidge Farm remembers."

For information circle number 139

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tain You Enterprises, Inc. (LEY). Yet the Pump Room exemplifies the reasons that many upscale restaurants choose to forgo morning service.

"I don't think we would offer breakfast if we were not in a hotel," says Mark Torme, LEY's general partner in charge of the Pump Room. "Breakfast tends to detract from the emphasis we can put on lunch and dinner. In the morning, we're working to get ready for the people who are already here instead of putting the effort into the rest of the day. I think that is probably the number one reason that hotels in general have good, but not great, restaurants: They are spread too thin."

Torme notes that 80 to 85 percent of the Pump Room's breakfast customers are staying in the Ambassador East or in the Ambassador West across the street, which doesn't offer a full-service restaurant. Each day perhaps 10 percent of the customers are local people meeting there, but Torme says that the much-talked-about "power breakfast" hasn't caught on in Chicago. The Pump Room offers a typical breakfast menu of eggs, bacon, ham, pancakes and the like. "People don't want strange things for breakfast," he adds.

Two other LEY operations, R.J. Grunt's and Fritz That's It, have offered popular Sunday brunches for many years, and management's experience there has been that brunch is more compatible than breakfast with an upscale or theme operation.

POPULAR. "Sunday brunch is three times as popular as a busy lunch," says John Buchanan, a LEY general partner. "This is nice for the restaurant because the check average is much higher than lunch. We have 200 to 300 people come through a 100-seat restaurant between 10 a.m. and 3 p.m. on a Sunday." Nevertheless, a brunch is typically very labor intensive and costs more to execute than meals. "It's a tradeoff," says Buchanan. "Brunch is profitable because otherwise you have a building sitting there unused."

At both restaurants, the basic brunch format is to offer a beverage, a choice of six or seven different entrees, and unlimited trips to the brunch bar (a converted salad bar) for one set price. The entrees range from steak and eggs, omelets, and frittatas to quiche, fresh grilled or sauteed seafood, and beef tenderloin.

The brunch bar offers some 35 to 50 items ranging from fresh fruits and pastries to "munchies" such as guacamole, shrimp and avocado salad, sardines, pickled herring, caviar, cream cheese spreads, cold cuts, ham, artichokes, and asparagus.

"Sunday brunch will be here forever," says Buchanan. "People who have been out the night before don't want to get up and cook, and Sunday brunch is a good time for family get-togethers."